

**CHARTER SCHOOL FACILITIES PROGRAM
2010 LOTTERY FUNDING ROUND
STAFF SUMMARY REPORT –MAY 2011**

Applicant/Obligor:	Voices College-Bound Language Academy
Project School:	Voices College-Bound Language Academy
CDS (County – District – School) Code:	43-694500-113662
Proposed Location:	725 Hellyer Ave., San Jose, CA 95111
Type of Project:	New Construction at Existing Site
County:	Santa Clara
District in which Project is Located:	Franklin McKinley School District
Charter Authorizer:	Franklin McKinley School District
Total OPSC Project Cost:	\$6,377,870
State Apportionment (50% Project Cost):	\$3,188,935
Lump Sum Contribution:	\$0
Total CSFP Financed Amount:	\$3,188,935
Length of CSFP Funding Agreement:	30 years
Assumed Interest Rate:	3.00%
Estimated Annual CSFP Payment:	\$162,697
First Year of Occupancy of New Project:	2012-2013

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Voices College-Bound Language Academy (VCBLA) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Advance Apportionment, but not for purposes of Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of VCBLA. Detailed information is contained in the body of the report.

Criteria	Comments
Eligibility Criteria	VCBLA meets all eligibility criteria, including having been in operations for more than two years, having a charter in place through 2012, and being in good standing with its chartering authority and in compliance with the terms of its charter.
Demographic Information	By addition of a new grade each successive year, VCBLA has shown consistent student enrollment growth since commencing operations in 2007-08 with 107 students in grades K-1. With 270 students in grades K-4 for the current year, VCBLA plans to grow a grade per year until reaching full capacity in the 2014-2015 year with 380 students in grades K-8.

Item 4.18 – Voices College-Bound Language Academy

Debt Service Coverage	VCBLA projects debt service coverage of 232.5% and 240.3% for 2013-14 and 2014-15, respectively, the first two years of CSFP payments. Without contributions, VCBLA projects debt service coverage of 210.9% and 218.8% for these same years, respectively.
Other Financial Factors	VCBLA does not rely on contributions to meet the Program’s debt service coverage requirement (see above).
Student Performance	Although VCBLA met all AYP criteria in each of 2007-08 and 2008-09, VCBLA did not meet all AYP criteria during 2009-10. Due to a low number of test scores, VCBLA does not yet have valid API base or growth information.

Program Eligibility: On February 25, 2011, the Authority received verification from the Franklin-McKinley School District confirming that VCBLA is (1) in compliance with the terms of its charter agreements, and (2) is in good standing with its chartering authority. VCBLA received its first charter from Franklin McKinley School District on March 14, 2006 which has been renewed through June 30, 2012.

Legal Status Questionnaire: Staff reviewed VCBLA responses to the questions contained in the Legal Status Questionnaire (LSQ). VCBLA answered “None” to all LSQ questions, indicating no disclosures to provide regarding material information relating to legal or regulatory proceedings or legal action in which it or any of its affiliates is a named party.

Project Description: VCBLA has requested funding for new construction of a school facility on an existing site to eventually accommodate 380 students (grades K-8) of which 78% are expected to qualify for free and reduced lunch. The site for the 19,520 square foot facility will be located at the existing G. W. Hellyer Elementary, 725 Hellyer Ave., San Jose, CA 95111. VCBLA will construct this project in cooperation with the Franklin McKinley Elementary School District and consists of two kindergarten and 15 multi-grade classrooms, an administration building, and a multi-use building. VCBLA expects to complete the facility in time for occupancy by the start of the 2012-13 school year.

Organizational Information: VCBLA began operations in 2007-08 serving 102 students in grades K-1, and currently serves approximately 270 students in grades K-4. VCBLA operates as an independent California non-profit corporation governed by a board comprised of parents, educators, a District representative, and other community members.

VCBLA’s mission is to prepare all students, specifically educationally underserved children, for the challenges of higher education through the context of an academically rigorous dual-immersion program. VCBLA meets the academic and social/emotional needs of students by using a dual language, standards and research based, high academic achievement, and data driven program.

Management Experience: The description of experience of VCBLA’s personnel and management team demonstrates that professional, experienced and qualified individuals are serving in key capacities within the organization, as described below.

Ms. Frances Teso is the Founding Principal/CEO of VCBLA and has served in this position since 2007-08. Prior to this position, Ms. Teso served in the following administrative positions: School Partnership Director of Oak Grove School District (2006-07); Principal

Item 4.18 – Voices College-Bound Language Academy

Resident of East Bay Conservation Corps Charter School (2005-06); and Instructional Facilitator at Sherman Oaks Dual-Language School (2004-05). Prior to her administrative roles, Ms. Teso served as a California public school teacher (2000-04), as well as a pre-kindergarten teacher (1993-94) and Head Start teacher (1989-92). Ms. Teso holds an M.A. in Elementary Education from San Jose State University, along with a Multiple Subjects Credential and a Preliminary Administrative Service Credential.

Ms. Lizzette Ramirez has served as the Operations Manager since 2007 and holds a B.S. in Business Administration from San Jose State University.

Board Experience: The ten members of the Governing Board have a variety of educational experience. In addition, based on VCBLA’s charter, the Board is to include a parent and teacher representative, and when available, an 8th-grade student representative (non-voting/advisory). The following table depicts the current Board’s membership.

Voices College-Bound Language Academy

Name	Occupation	Title	County of Residence	Term
Alice Miller	CFO and CCSA Director	Treasurer/Community Member	Santa Clara	2007-Indefinite
Yvonne McGuire	Administrative Assistant	Secretary/Parent Representative	Santa Clara	2010-11
Ruby Rodriguez	Elementary School Teacher	Staff Representative	Santa Clara	2010-11
Frances Teso,	Principal, VCBLA	Board President	Santa Clara	2007-Indefinite
Rebecca Hernandez	Project Manager	Community Representative	Santa Clara	2010-12
Cathy Holley	Special Education Teacher	Board Vice President	Santa Clara	2007-indefinite
Tina Ybarra	Elementary School Teacher	Parent Representative	Santa Clara	2010-11
Mary Akin	Director of Categoricals and Compliance, Franklin-McKinley School District	District Representative	Santa Clara	2010-indefinite
Salome Portugal	School Support Manager, New Leaders for New Schools	Community Representative	Alameda	2010-12
Sara Reyes	After Schools Educational Services Program Director, Catholic Charities of Santa Clara County	Community Representative	Santa Clara	2010-12

Item 4.18 – Voices College-Bound Language Academy

The primary roles and responsibilities of the Board include the following: overseeing implementation of the charter components; adopting, implementing, and interpreting school-wide policy; overseeing the Principal’s performance; adopting the charter school budget; approval of charter amendments; approval of contractual agreements; and advocating on behalf of the school for purposes of fundraising.

Management Experience for Schools Open Less than Two Years: Not applicable. VCBLA began instructional operations in 2007-08 and exceeds the minimum instructional requirements of two years.

Student Performance: Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school’s financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of Federal Title 1 funds.

The following table summarizes VCBLA’s student performance for the past three years.

Voices College-Bound Language Academy	FY 2007/08	FY 2008/09	FY 2009/10
ADEQUATE YEARLY PROGRESS (AYP)			
Met All AYP Criteria?	Yes	Yes	No
Criteria Met / Required Criteria	3 / 3	5 / 5	4 / 5
Met API Indicator for AYP?	Yes	Yes	Yes
Met Graduation Rate?	NA	NA	NA
ACADEMIC PERFORMANCE INDEX (API)			
Met Schoolwide Growth Target?	N/A	N/A	No
Met Comparable Improvement Growth Target?	N/A	N/A	Yes
Met Both Schoolwide & CI Growth Targets?	N/A	No	No
API Base Statewide Rank (10 = best)	N/A	N/A	5
API Base Similar Schools Rank (10 = best)	N/A	N/A	N/A
School's Actual Growth	N/A	N/A	-31
Similar Schools Median of Actual Growth	N/A	N/A	N/A
Did School's Growth Exceed Median?	N/A	N/A	N/A

Although VCBLA met all AYP criteria for each of 2007-08 and 2008-09, it did not meet all AYP criteria for 2009-10. Due to low participation and the low number of standardized test scores during 2007-08 and 2008-09 (11 test scores in 2007-08 and 34 test scores in 2008-09), reliable API growth information is not available for those years. For 2009-10, VCBLA had an API base score of 772 and an API growth score of 741, resulting in a net loss of 31 points. Due to the low number of standardized scores for 2009-10 (93 test scores in 2009-10), reliable statewide and similar schools ranks are not available for this year. However, VCBLA achieved a statewide rank of “5” (“10” = best) for 2009-10 based on the limited

number of test scores. Due to the lack of reliable API growth information, staff was unable to incorporate such information into its financial soundness determination.

Enrollment and Retention Rates: VCBLA commenced in the 2007-08 school year with 107 students in grade K-1. VCBLA added a second grade in 2008-09, resulting in 145 students in grades K-2, and a third grade in 2009-10, resulting in 204 students in grades K-3. For the current 2010-11 school year, VCBLA is serving 270 students in grades K-4. VCBLA plans to grow a grade a year until reaching full capacity with 380 students in grades K-8 in 2014-15. The following are VCBLA's enrollment projections through the second year after project occupancy: 296 students in grades K-5 for 2011-12; 322 students in grades K-6 in 2012-13 (first year of project occupancy); 353 students in grades K-7 in 2013-14; and 380 students in grades K-8 in 2014-15. Given VCBLA's historical enrollment growth resulting from adding a new grade each year up to grades K-4 for the current year, staff considers VCBLA's projected enrollment resulting from the addition of grades 5 through 8 in consecutive years to be reasonable.

VCBLA achieved year-to-year student retention rates of 87%, 93%, and 95% for 2008-09, 2009-10, and 2010-11, respectively. Based on the audited financial reports for 2007-08, 2008-09, and 2009-10, second interim budget report for 2010-11, and the P1 report for 2010-11, VCBLA achieved ADA rates of 98%, 97%, 96%, and 98% for 2007-08, 2008-09, 2009-10, and 2010-11, respectively. VCBLA has a current waiting list of 233 students.

Given VCBLA's consistent enrollment growth thus far, as well as VCBLA's most recent retention rate (95%), current wait list, and the fact that VCBLA is adding a new grade each year, staff does not consider VCBLA's enrollment projections to be unreasonable.

Financial Analysis: Highlighted in this section are financial data and credit indicators used to evaluate the VCBLA's ability to meet its CSFP obligations. The table below summarizes key aspects of the school's past and projected financial performance.

Staff's financial analysis of VCBLA is based upon review of the following documents: (1) audited financial statements for 2007-08, 2008-09, and 2009-10; (2) the 2010-11 1st Interim Budget Report; and (3) multi-year budget projections through 2014-15, along with assumptions, including projected enrollment. While VCBLA includes private contributions in its projected revenues, such contributions represent less than 2% of revenues during each of the two years after project occupancy. VCBLA's audited financial statements include evidence of having received prior private contributions.

VCBLA's financial projections are based upon the following assumptions: (1) project occupancy in 2012-13; (2) increases in enrollment as described above (under "Enrollment and Retention Rates"); (3) 2010-11 funding rates for charter school general purpose block grant of \$4,769 (grades K-3), \$4,841 (grades 4-6), and \$4,980 (grades 7-8); (4) projected ADA rates of 98%, which is consistent with VCBLA's historical performance; (5) cost of living adjustment (COLA) on charter school general purpose block grant and other State charter school entitlements of 0.0% for all projected years; (6) COLA to certificated salaries of 2% for each of the projected years; and (7) maintenance of student-to-teacher ratios of between 18 and 21 during the projected years. In addition, as VCBLA has no facility lease rental expenses, no such expenses needed to be removed from the expenditures beginning in 2012-13, first year of project occupancy.

Item 4.18 – Voices College-Bound Language Academy

Voices College-Bound Language Academy	Actual FY 2007/08	Actual FY 2008/09	Budget FY 2009/10	Projected FY 2010/11	Projected FY 2011/12	Projected FY 2012/13	Projected FY 2013/14	Projected FY 2014/15
ENROLLMENT PROJECTIONS								
Enrollment	103	145	204	270	296	322	353	380
Average Daily Attendance	101	141	196	264	290	316	346	372
Average Daily Attendance (%)	98%	97%	96%	98%	98%	98%	98%	98%
FINANCIAL PROJECTIONS								
Total Revenues Available for CSFP Payment	\$ 1,113,761	\$ 1,261,371	\$ 1,397,252	\$ 1,843,749	\$ 2,027,593	\$ 2,213,675	\$ 2,425,860	\$ 2,616,241
Total Expenses Paid Before CSFP Payment	957,160	1,197,749	1,306,146	1,779,506	1,920,300	2,006,779	2,140,513	2,327,006
Accounting Adjustments	-	-	-	-	109,602	83,386	92,853	101,668
Net Revenues Available for CSFP Payment	\$ 156,601	\$ 63,622	\$ 91,106	\$ 64,243	\$ 216,895	\$ 290,282	\$ 378,200	\$ 390,903
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,697	\$ 162,697
Net Revenues After CSFP Payment	\$ 156,601	\$ 63,622	\$ 91,106	\$ 64,243	\$ 216,895	\$ 290,282	\$ 215,503	\$ 228,206
FINANCIAL INDICATORS								
Net Revenues Available for CSFP Payment	\$ 156,601	\$ 63,622	\$ 91,106	\$ 64,243	\$ 216,895	\$ 290,282	\$ 378,200	\$ 390,903
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	232.5%	240.3%
Contributions	\$ 10,323	\$ 95,336	\$ 19,359	\$ -	\$ 30,000	\$ 35,000	\$ 35,000	\$ 35,000
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	210.9%	218.8%
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	6.7%	6.2%
Contributions / Revenues	0.9%	7.6%	1.4%	N/A	1.5%	1.6%	1.4%	1.3%
Net Revenues After CSFP Payment / Revenues	14.1%	5.0%	6.5%	3.5%	10.7%	13.1%	8.9%	8.7%
Revenues / ADA	\$ 11,035	\$ 8,946	\$ 7,129	\$ 6,984	\$ 6,992	\$ 7,005	\$ 7,011	\$ 7,033
Expenses / ADA	\$ 9,483	\$ 8,495	\$ 6,664	\$ 6,741	\$ 6,622	\$ 6,351	\$ 6,657	\$ 6,693
Surplus (Deficit) / ADA	\$ 1,552	\$ 451	\$ 465	\$ 243	\$ 370	\$ 655	\$ 354	\$ 340
Net Working Capital	\$ 341,121	\$ 363,076	\$ 412,515					
Net Working Capital / Expenses	35.6%	30.3%	31.6%					

Financial Performance: As of June 30, 2010, VCBLA's only long term debt was a CDE revolving loan balance of \$125,000, which is scheduled to be paid off in 2013, after making three annual principal payments of \$41,667 plus annual interest at 5.26%.

For 2007-08 and 2008-09, respectively, VCBLA recorded net revenues of \$156,601 and \$63,622 on revenues of \$1.11 million and \$1.26 million, and expenses of \$957,160 and \$1.20 million, resulting in total net assets of \$238,076. For 2009-10, VCBLA recorded net revenues of \$91,106 on \$1.38 million in revenues and \$1.31 million in expenses. For the current year, 2010-11, VCBLA anticipates net revenues of \$64,243 on \$1.84 million in revenues and \$1.78 million in expense, resulting in total net assets of \$393,425. VCBLA anticipates net revenues of \$107,293 and \$206,896 for 2011-12 and 2012-13 (year of project occupancy), respectively, resulting in total net assets of \$707,614. For the two years following project occupancy, 2013-14 and 2015-15, VCBLA anticipates net revenues of \$285,347 and \$289,235, respectively, prior to CSFP payments.

Projected Debt Service Coverage of CSFP Payments: Assuming a 3.0% interest rate and 30-year repayment period, as well as an estimated project cost of \$6,377,870, VCBLA's annual CSFP payment will be \$162,697 beginning 2013-14, the first year following project occupancy. VCBLA's projected net revenues of \$285,347 for 2013-14 and \$289,235 for 2014-15 would provide debt service coverage levels of 232.5% and 240.3%, respectively, which are substantially above the minimum requirement. The CSFP payments would represent 6.7% and 6.2% of projected revenues for each of these years, which is well within the preferred maximum range of 10-15%. Without contributions, VCBLA's debt service coverage levels for 2013-14 and 2014-15 are anticipated to be 210.9% and 218.8%, respectively, which are also well above the minimum requirement. Therefore, VCBLA does not rely on private contributions to meet the 100.0% debt service coverage requirement.

Staff has conducted a stress test on VCBLA's ability to withstand a reduction in enrollment and still meet the minimum required debt service coverage. Based the multi-year budget projections, with contributions, VCBLA could withstand a 12% reduction in projected

enrollment and still meet the minimum debt service coverage requirement. While VCBLA's ability to withstand a moderate reduction in enrollment is limited, given staff's determination that VCBLA's enrollment projections are reasonable, this limitation is not considered a key factor in staff's determination of financial soundness, and the ability to withstand a 12% reduction in enrollment is considered favorable.

Liquidity: Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. VCBLA's NWC for 2008-09 and 2009-10 was \$363,076 and \$412,515, respectively, or 30.3% and 31.6% of total expenses for these years. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. On June 30, 2010, VCBLA reported holding \$199,137 in cash.

Strengths, Weaknesses and Mitigants

- + VCBLA projects debt service coverage of 232.5% and 240.3% for 2013-14 and 2014-15, respectively, the first two years of CSFP payments. In addition, without contributions, VCBLA projects debt service coverage of 210.9% and 218.8% for these same years, respectively. Hence, VCBLA does not rely on contributions to meet the Program's debt service coverage requirement.
- + VCBLA's net working capital as of June 30, 2010 was \$412,515 or 31.6% of total expenses, which is well above the 5% threshold to be considered sufficient.
- + Beginning with 107 students in grades K-1 in 2007-08, VCBLA has shown consistent student enrollment growth as a result of adding a new grade each successive year, with 270 students in grades K-4 during the current year. VCBLA anticipates continued growth to 322 students in grades K-6 in 2012-13 (first year of project occupancy), 353 students in grades K-7 in 2013-134, and 380 students in grades K-8 in 2014-15.
- +/- Although VCBLA met all AYP criteria for each of 2007-08 and 2008-09, it did not meet all AYP criteria for 2009-10. Due to the lack of API growth information, staff was unable to incorporate such information into its financial soundness determination.

Staff Recommendation: Staff recommends that the California School Finance Authority (Authority) Board determine that Voices College-Bound Language Academy (VCBLA) is financially sound for the purposes of the Charter School Facilities Program (CSFP or the Program) Preliminary and Advance Apportionment, but not for purposes of Final Apportionment. This determination as it relates to an Advance Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.